

Message Text

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ACTION ARA-14

INFO OCT-01 ISO-00 AID-05 CIAE-00 COME-00 EB-07 FRB-01

INR-07 NSAE-00 USIA-15 TRSE-00 XMB-04 OPIC-06

SP-02 LAB-04 EPG-02 SIL-01 OMB-01 PA-02 PRS-01

NSC-05 SS-15 STR-04 CEA-01 L-03 H-02 HUD-02 /105 W

-----071257Z 097171 /45

R 061955Z JUN 77

FM AMEMBASSY BUENOS AIRES

TO SECSTATE WASHDC 0825

UNCLAS BUENOS AIRES 4185

E.O. 11652: N/A

TAGS: EFIN, AR

SUBJ: DECENTRALIZED BANKING SYSTEM BEGINS OPERATING

REF: BA-0503

1. SUMMARY AND INTRODUCTION: ARGENTINA'S NEW "DECENTRALIZED" BANKING SYSTEM WENT INTO EFFECT JUN 1, REPLACING THE PERONIST "NATIONALIZED" DEPOSIT SYSTEM. INSTEAD OF ACTING AS AGENTS FOR THE CENTRAL BANK, COMMERCIAL BANKS NOW HOLD DEPOSITS FOR THEIR OWN ACCOUNT. RESERVE REQUIREMENTS NOW DETERMINE THE CREDIT CAPACITY OF A BANK AND THUS COMPETITION FOR DEPOSITS HAS BEEN ENCOURAGED, WITH ALMOST ALL INTEREST RATES FREELY DETERMINED. PROMOTED EXPORTS AND HOUSING CONTINUE TO RECEIVE CONCESSIONAL TREATMENT. END SUMMARY.

2. THE CENTRAL BANK ISSUED THIRTY-THREE CIRCULARS REGULATING THE NEW SYSTEM, SOME OF THE PRINCIPAL FEATURES OF WHICH ARE SUMMARIZED BELOW:

A) A MONETARY REGULATION ACCOUNT IN THE CENTRAL BANK IS ESTABLISHED. THE ACCOUNT WILL RECEIVE FUNDS FROM FEES IMPOSED ON CREDIT (6.05 PERCENT IN JUN) AND FROM PENALTIES FOR FAILING TO MEET RESERVE REQUIREMENTS AND

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USE THESE FUNDS TO COMPENSATE FINANCIAL ENTITIES FOR LOSSES DUE TO RESERVES HELD ON TIME DEPOSITS.

B) A SINGLE RESERVE REQUIREMENT OF 45 PERCENT IS ESTABLISHED FOR ALL TYPES OF DEPOSITS.

C) THE 1.5 PERCENT TAX ON CREDIT IS ABROGATED.

D) INTEREST RATES ON LOANS ARE FREELY DETERMINED. ON LOANS WITH TERMS OVER 180 DAYS, INTEREST PAYMENTS MUST BE MADE AT MATURITY. ON LOANS UNDER 180 DAYS, INTEREST PAYMENTS MAY BE MADE EITHER IN ADVANCE OR AT MATURITY. INDEXED OPERATIONS MUST BE BASED ON THE WHOLESALE PRICE INDEX.

E) INTEREST PAID FOR DEPOSITS, INCLUDING DEMAND DEPOSITS, ARE FREELY DETERMINED BY THE BANKS.

F) TWENTY PERCENT OF PROFITS MUST GO TO THE LEGAL RESERVE FUND.

G) FINANCIAL LIABILITIES ARE LIMITED TO 25 TIMES NET WORTH.

H) SUBSIDIZED FINANCING FOR HOUSING, WITH FOLLOWING RATES FOR THE BORROWER (AND FOR REDISCOUNT WITH THE CENTRAL BANK); NORMAL HOUSING - 47 PERCENT (39 PERCENT); LOW COST HOUSING - 6 PERCENT (3.5 PERCENT); AND CONSTRUCTION - 63.4 PERCENT (61 PERCENT).

I) PREFINANCING OF PROMOTED EXPORTS, MAXIMUM INTEREST RATE OF 50 PERCENT PAYABLE AT MATURITY, BOTH FOR LOAN AND REDISCOUNT FROM CENTRAL BANK. FINANCING OF PROMOTED EXPORTS THROUGH DISCOUNT OF EXPORT PAPER - MAX 7.5 PERCENT (REDISCOUNT 4.5 - 5 PERCENT AT CENTRAL BANK, DEPENDING ON PRODUCTS). POST-FINANCING OF EXPORTS HAS UNCLASSIFIED

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BEEN ELIMINATED - A RECOGNIZED INDIRECT SUBSIDY IN THE FORM OF INTEREST ARBITRAGE.

3. ON THE FIRST DAY THE NEW SYSTEM WENT INTO EFFECT, INTEREST RATES DROPPED 3-5 POINTS AS BOTH THE BANKS AND INVESTORS OPERATED WITH CAUTION. ADEBA, THE ARGENTINE BANK ASSOCIATION, ISSUED A STATEMENT SUPPORTING THE NEW SYSTEM AND INDICATING THAT A PERIOD OF READJUSTMENT WAS NORMAL AND NECESSARY. EXPORTERS OF INDUSTRIAL PRODUCTS EXPRESSED THEIR DISPLEASURE WITH THE ELIMINATION OF POST-FINANCING AND PREDICTED THAT IT WOULD FURTHER HURT THEIR ABILITY TO COMPETE INTERNATIONALLY. THE GOVERNMENT, IN TURN, HAS POINTED OUT THAT THE COST OF PRE-FINANCING HAS BEEN REDUCED, SINCE THE INTEREST RATE IS PAYABLE AT MATURITY RATHER THAN IN ADVANCE AS FORMERLY.

4. COMMENT: THE NEW BANKING SYSTEM REPRESENTS AN IMPORTANT STEP TOWARD REVITALIZING ARGENTINA'S FINANCIAL SYSTEM. THE LARGER, MORE AGGRESSIVE PRIVATE COMMERCIAL

BANKS SHOULD BENEFIT AT THE EXPENSE OF THE SMALLER PRIVATE BANKS AND THE OFFICIAL BANKS AND THOSE IN BUENOS AIRES AT THE EXPENSE OF THE BANKS IN THE INTERIOR. THE SINGLE, HIGH RESERVE REQUIREMENT WILL FACILITATE CONTROL OF CREDIT EXPANSION BUT AT THE SAME TIME HAS REQUIRED THE UNUSUAL COMPENSATORY MECHANISM FOR TIME DEPOSITS-- COMPENSATION WHICH IS ABSOLUTELY NECESSARY IF FINANCIAL INSTITUTIONS ARE TO OFFER SUFFICIENTLY HIGH INTEREST RATES TO ATTRACT SAVINGS. THE RESERVE REQUIREMENT WILL NO DOUBT BE PROGRESSIVELY REDUCED AS INFLATION DECLINES AND THE CENTRAL BANK TAKES STEPS TO INCREASE THE RATIO BETWEEN MEANS OF PAYMENT AND GDP -- CURRENTLY AT AROUND 8 PERCENT AND ONE OF ITS LOWEST LEVELS EVER.

5. A FULL SET OF CENTRAL BANK CIRCULARS HAS BEEN FORWARDED TO EXIMBANKS AND ANOTHER SET TO ARA/ECA.

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Message Attributes

Automatic Decaptioning: X
Capture Date: 01-Jan-1994 12:00:00 am
Channel Indicators: n/a
Current Classification: UNCLASSIFIED
Concepts: CENTRAL BANK, REGULATIONS, LAW, COMMERCIAL BANKS, BANK DEPOSITS, BANK ACCOUNTS
Control Number: n/a
Copy: SINGLE
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Decaption Date: 01-Jan-1960 12:00:00 am
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Disposition Approved on Date:
Disposition Case Number: n/a
Disposition Comment:
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Disposition Event:
Disposition History: n/a
Disposition Reason:
Disposition Remarks:
Document Number: 1977BUENOS04185
Document Source: CORE
Document Unique ID: 00
Drafter: n/a
Enclosure: n/a
Executive Order: N/A
Errors: N/A
Expiration:
Film Number: D770202-0608
Format: TEL
From: BUENOS AIRES
Handling Restrictions: n/a
Image Path:
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Legacy Key: link1977/newtext/t19770689/aaaaczkl.tel
Line Count: 139
Litigation Code IDs:
Litigation Codes:
Litigation History:
Locator: TEXT ON-LINE, ON MICROFILM
Message ID: 6b89b784-c288-dd11-92da-001cc4696bcc
Office: ACTION ARA
Original Classification: UNCLASSIFIED
Original Handling Restrictions: n/a
Original Previous Classification: n/a
Original Previous Handling Restrictions: n/a
Page Count: 3
Previous Channel Indicators: n/a
Previous Classification: n/a
Previous Handling Restrictions: n/a
Reference: n/a
Retention: 0
Review Action: RELEASED, APPROVED
Review Content Flags:
Review Date: 27-Oct-2004 12:00:00 am
Review Event:
Review Exemptions: n/a
Review Media Identifier:
Review Release Date: n/a
Review Release Event: n/a
Review Transfer Date:
Review Withdrawn Fields: n/a
SAS ID: 2268257
Secure: OPEN
Status: NATIVE
Subject: DECENTRALIZED BANKING SYSTEM BEGINS OPERATING
TAGS: EFIN, AR
To: STATE
Type: TE
vdkgvwkey: odb://SAS/SAS.dbo.SAS_Docs/6b89b784-c288-dd11-92da-001cc4696bcc
Review Markings:
Margaret P. Grafeld
Declassified/Released
US Department of State
EO Systematic Review
22 May 2009
Markings: Margaret P. Grafeld Declassified/Released US Department of State EO Systematic Review 22 May 2009